Note 1. Summary of Significant Accounting Policies

The financial statements of Yellowstone County (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's significant accounting policies are described below.

A. Reporting Entity

Yellowstone County's financial statements include those separate governmental entities that are controlled or are dependent on the County. The determination to include separate governmental entities is based on the criteria of GASB Statement No. 14. GASB Statement No. 14 defines the reporting entity as the County and those component units for which the County is financially accountable. To be financially accountable, a voting majority of the organization's board must be appointed by the County, and either a) the County must be able to impose its will, or b) the County may potentially benefit financially or be financially responsible for the organization.

B. Fund Accounting

The County uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all financial activities of the general government not recorded in another fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Fiduciary funds include all trust and agency funds which account for assets held by the County as a trustee or as an agent for individuals, other governmental units and/or other funds. The investment trust fund accounts for the external portion of the County's investment pool, which is invested for County school districts, special districts, and the protest tax fund. These districts have all agreed to voluntarily participate in the investment pool. Agency funds generally are used to account for funds being held on an interim basis on behalf of others as their agent. Such funds are custodial in nature since all assets are due to individuals or entities at some future time.

Note 1. Summary of Significant Accounting Policies, continued

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The Proprietary funds apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins.

Operations of the investment trust fund are accounted for in the same manner as the proprietary funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are interest revenue, grant revenues, and charges for services. Changes in the fair value of investments are recognized in revenue at the end of each year. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

The accrual basis of accounting is utilized by proprietary funds and the investment trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The County reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the County because it is presently not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Note 1. Summary of Significant Accounting Policies, continued

E. Cash and Demand Investments, and Cash Investments

Cash resources, to the extent available, of the individual funds are combined to form a cash pool, which is managed by the County Finance Director. The cash pool is not registered with the Securities and Exchange Commission as an investment company and is not subject to regulatory oversight. Investments of the pooled cash, which are authorized by state law, consist primarily of repurchase agreements, the State of Montana's Short Term Investment Pool (STIP), andsecurities of the U. S. Government or its agencies and are carried at fair value. The fair value of investments is determined annually, and is based on current market prices. The method used to determine the values of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of withdrawal. Bank deposits include demand deposits and overnight repurchase agreements in County banks. Interest income earned as a result of pooling and changes in the fair value of investments are distributed to the appropriate funds as designated by state law utilizing a formula based on the applicable cash balance participation of each fund. The general fund receives interest revenue from those funds not specifically designated by state law to receive interest.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2002 to support the value of shares in the pool.

The County issues warrants in payment of its obligations. Cash balances are reported net of outstanding warrants.

For purposes of the statement of cash flows, the County considers all highly liquid debt instruments with an original maturity of three months or less, including restricted investments, as cash equivalents.

F. Restricted Cash and Demand Investments

Restricted cash and demand investments represent resources set aside for capital improvements, advances, notes payable repayment, and unforeseeable repairs or improvements.

G. Short-Term Interfund Receivables and Payables

During the course of operations numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

H. Advances to Other Funds

Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Note 1. Summary of Significant Accounting Policies, continued

I. Inventories

In the proprietary funds, inventories are recorded at the lower of cost (first-in, first-out method) or market, and are recorded as expenses when consumed. In the governmental funds, reported inventories are recorded at average cost, and are recorded as expenditures when consumed.

J. Fixed Assets

General fixed assets acquired in governmental fund type operations are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets over $5000 in value are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets in the General Fixed Assets Account Group are not depreciated.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Fixed assets for the proprietary funds are stated at cost, net of accumulated depreciation. Gifts or contributions are recorded at their market value at date of receipt.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Depreciation on certain assets acquired through capital contributions is restored to retained earnings by reducing the appropriate contributed capital account. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives, in years, are as follows:

Fund	Buildings	Improvements Other Than Building	Equipment & Vehicles
METRA	10-40	10-40	3-15
Motor Pool	--	--	5
Telephone	--	--	3-10

Land taken for nonpayment of taxes, as described in Note 4, is reported at estimated fair value as "Land held for resale". Proceeds from the sale of this property are prorated and distributed to the associated taxing jurisdiction.

K. Self-Insurance Accruals

The County provides for an estimated accrual for incurred claims at year end in the Property and Liability Insurance Fund and the Health Insurance Fund.

L. Due to Other Taxing Districts

This account represents cash, tax receivables, and other assets held by the County for other taxing jurisdictions. Cash received by the County for the State of Montana, multi-jurisdictional service districts, and cities and towns located in Yellowstone County is distributed in the month following collection.

Note 1. Summary of Significant Accounting Policies, continued

M. Compensated Absences

Vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. No expenditure is reported for these amounts. Vested or accumulated vacation and sick leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

N. Contributed Capital

The County records contributions to enterprise and internal service funds from federal, state and other outside sources for property acquisitions as contributed capital.

O. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

P. Total Columns on Combined Statements

"Totals (Memorandum Only)" columns on the general purpose financial statements are presented only to facilitate financial analysis but do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

Note 2. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, debt service, and capital projects funds. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

The level of budgetary control (that is the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. Individual fund budgets are the same as appropriation amounts. Unexpended appropriations lapse at the end of the year.

Budget amendments can be made at any time during the year by resolution after holding public hearings. Supplemental appropriations were made for unanticipated state and federal grants awarded during the year. The effect of the budget amendments other than those for federal and state grants during fiscal year 2002 was nominal. Reported budget amounts represent the original adopted budget as amended.

Because the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual includes all of the information presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types, the latter statement is excluded.

Note 3. Cash and Demand Investments, and Cash Investments

The County maintains a cash and investment pool for all funds under the control of the County Treasurer. The total pooled cash reported in the combined balance sheet at June 30, 2002, is detailed as follows:

Cash on hand	$ 22,999
Cash in pooled bank deposits and demand investments	36,651,845
Outstanding warrants	(6,397,648)
Cash and demand investments	30,277,196
Cash investments	36,536,629
Total	**$66,813,825**

Cash and demand investments	$29,486,175
Restricted cash and demand investments	791,021
Cash and demand investments	30,277,196
Cash investments	36,536,629
Total	**$66,813,825**

Cash on hand - represents two types of cash items: petty cash and change funds on hand - $19,861 ; cash received after last bank deposit - $3,138.

Cash in pooled bank deposits and demand investments - represents deposit items such as overnight repurchase agreements, Montana short-term investment pool (STIP), and daily demand/time deposits.

STIP

STIP is considered an external investment pool. STIP is also classified as a "2a-7 like" pool. A "2a-7-like" pool is an external investment pool that is not registered with the Securities and Exchange Commission as an investment fund, but has a policy that it will and does operate in a manner consistentwith the SEC's Rule 2a-7 of the Investment Company Act of 1940. The County's investment position in STIP is determined by the pool's share price, which is dollar denominated.

The STIP portfolio includes, but is not limited to, "variable rate" and "asset-backed" securities to provide diversification and a competitive rate of return. These securities are described below:

Asset-backed Securities are debt securities collateralized by a pool of mortgages and non-mortgage assets, such as trade and loan receivables, equipment leases, and credit cards, etc. pledged by the issuer. Asset-backed securities have one or more forms of credit enhancement to raise the quality of the security. Examples of credit enhancement include, but are not limited to, letter of credit, reserve fund, or senior/subordinate arrangements.

Variable Rate (Floating-Rate) Securities provide many advantages of short-term bonds because they are designed to minimize the investor's interest rate risk. As with variable rate loans issued by banks, the interest rate paid by the issuer of these securities is reset periodically depending on market conditions. The value of these securities will usually remain at or near par because their interest rates are reset to maintain a current market yield. STIP's variable rate securities float to either the prime rate or the London Interbank Offering Rate (LIBOR), which is similar to the European federal funds rate.

Note 3. Cash and Demand Investments, and Cash Investments, continued

Outstanding warrants - represents issued and outstanding warrants and checks of the County and school districts.

Cash investments - represents investments held by the County Treasurer with maturity dates exceeding 1 day. At June 30, 2002, pooled investment items were:

Investment Type	Yield	Maturity Date	Fair Value
U.S. government agency securities	3.02 - 5.50%	1.0-4.5 years	$36,536,629

The County's pooled investments are categorized below to give an indication of the level of risk assumed by the County at June 30, 2002. Category 1 includes investments that are insured, registered, or for which the collateralized securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the collateralized securities are held by the counterparty's trust department or its agent in the County's name. Category 3 includes uninsured and unregistered investments for which the collateralized securities are held by the financial institution or its trust department or agent but not in the County's name. All investments meet collateral requirements specified by State Law.

	Category 1	Category 2	Category 3	Uncategorized	Fair Value
Cash on hand and in pooled bank deposits	$ 306,060	$ 0	$ 2,862,784	$ 0	$ 3,168,844
Demand investments (STIP)	0	0	0	33,506,000	33,506,000
Less outstanding warrants and other reconciling items	0	0	0	(6,397,648)	(6,397,648)
Net cash on hand and in pooled bank deposits and demand investments	$ 306,060	$ 0	$ 2,862,784	$ 27,108,352	$ 30,277,196
Cash investments - U.S. government agency securities	36,536,629	0	0	0	36,536,629
TOTAL	$ 36,842,689	$ 0	$ 2,862,784	$ 27,108,352	$ 66,813,825

As of June 30, 2002 the County has no nonpooled investments.

Note 3. Cash and Demand Investments, and Cash Investments, continued

The following represents a condensed statement of net assets and changes in net assets for the cash and investment pool as of June 30, 2002:

Statement of Net Assets	
Cash and demand investments	$29,486,175
Cash investments	36,536,629
Restriced cash and demand investments	791,021
Accrued interest receivable	263,237
Net assets held in trust for all pool participants	**$ 67,077,062**
Equity of internal pool participants	$ 29,416,961
Equity of external pool participants	37,660,101
Total equity	**$ 67,077,062**

Statement of Changes in Net Assets	
Net assets at July 1, 2001	$ 65,460,507
Net changes in investments by pool participants	1,394,673
Market value adjustment of cash investments	221,882
Net assets at June 30, 2002	**$ 67,077,062**

Note 4. Receivables

Receivables:	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Internal Service Funds	External Investment Trust Fund	Agency Funds	Totals (Memorandum Only)
Tax title sale contracts	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 12,251	$ 12,251
Property taxes	201,390	518,722	31,385	0	30,462	0	0	4,190,036	4,971,995
Accounts	590,796	1,605,876	0	7,283	0	4,946	0	0	2,208,901
Delinquent assessments	0	19,406	27,283	0	79,436	0	0	845,504	971,629
Deferred assessments	0	0	933,290	0	0	0	0	12,357	945,647
Accrued interest	79,335	12,488	2,406	7,439	1,084	7,011	153,474	0	263,237
Gross receivables	871,521	2,156,492	994,364	14,722	110,982	11,957	153,474	5,060,148	9,373,660
Less: allowance for uncollectibles	(242,326)	(91,341)	(58,300)	0	(16,000)	0	0	0	(407,967)
Total net receivables	**$629,195**	**$2,065,151**	**$ 936,064**	**$ 14,722**	**$ 94,982**	**$ 11,957**	**$ 153,474**	**$ 5,060,148**	**$ 8,965,693**

The delinquent taxes receivable accounts represent the past five years of uncollected tax levies. The allowance for uncollectibles is estimated based on delinquent tax collection history. All net property taxes and special assessments receivables are offset by deferred revenue in the governmental fund types.

The 2001 real property taxes and the 2001 special assessments were levied and became receivables in October 2001. The semi-annual installments were due in November 2001 and May 2002. As of December 1, 2001, and June 1, 2002, uncollected real property taxes and special assessments became delinquent and all uncollected amounts as of June 30, 2002, have been reported as deferred revenue. Delinquent taxes become a lien on the property on June 1 and after 3 years the County exercises the lien and takes title to the property. Personal property taxes were levied throughout the year and became a receivable when levied. Personal property taxes are due 30 days from the levy date. Amounts not collected as of June 30, 2002, have been reported as deferred revenue. There was no significant land held for resale as of June 30, 2002.

The general fund has an accounts receivable for $286,931 for expenses incurred related to the national bowling tournament held at METRA. The receivable has an allowance of $214,126 for a net receivable of $72,805. Additional collections from event contributors above $72,805 are not expected.

Note 5. Interfund Assets/Liabilities

Due from/to Other Funds

Receivable Fund	Payable Fund	Amount
R.S.I.D. Bond Fund	R.S.I.D. Revolving Fund	$ 17,431
General Fund	Crime Control Fund	26,480
		$ 43,911

Advances from/to Other Funds:

Receivable Fund	Payable Fund	Amount
Capital Improvement Fund	Metra Fund	$ 262,405

Note 6. General Fixed Assets

The following is a summary of changes in the general fixed assets account group during the fiscal year.

	Balance July 1, 2001	Additions	Deductions	Transfers	Balance June 30, 2002
Land	$ 679,214	$ 205,000	$ (1,422)	$ 0	$ 882,792
Buildings	23,001,241	166,036	(79,211)	0	23,088,066
Improvements other than buildings	2,014,204	114,092	(41,593)	0	2,086,703
Equipment and vehicles	11,915,400	1,904,169	(2,529,750)	93,536	11,383,355
Construction in progress	93,536	1,011,132	0	(93,536)	1,011,132
Total general fixed assets	$ 37,703,595	$ 3,400,429	$ (2,651,976)	$ 0	$ 38,452,048

During fiscal year 2002, the capitalization threshold for general fixed assets was changed from $500 to $5,000. General fixed assets below $5,000 are shown as deductions.

Note 7. Long-Term Debt

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the County.
The outstanding general obligation bond indebtedness of the County was as follows:

1994 METRA Expansion Bonds, nontaxable, $425,000 principal @ 5.4% due June 1, 2003, and $445,000 principal @ 5.5% due June 1 , 2004	$ 870,000
2001 General Obligation Refunding Bonds (nontaxable), 3.00 - 4.15% due June 1, 2014, payable in annual principal installments of $80,000 to $765,000, callable on or after June 1, 2008	6,640,000
Total general obligation bond indebtedness, June 30, 2002	$ 7,510,000

On November 1, 2001, the County issued an advance refunding of the 1994 METRA expansion general obligation bond. The $6,830,000 refunding was a nontaxable general obligation bond with a true net interest cost of 3.83% issued to refund callable debt maturities of the 1994 bond scheduled for payment after June 1, 2004 with an average interest rate of 5.96%. The aggregate savings on scheduled future debt service is $559,434 with a net present value benefit of $453,160. The annual undiscounted debt service savings varies between $40,653 and 45,653 between fiscal years 2002 to 2014. Proceeds of the 2001 refunding issue were used to pay issuance costs and the balance was escrowed in government securities until June 1, 2004 when it will be utilized to redeem the outstanding principal of the 1994 issue maturing on June 1, 2005 and later. Debt payments on 1994 Bonds maturing on June 1, 2003 and June 1, 2004 will be funded partially by the escrow and partially by the County.

Because securities have been deposited in an irrevocable trust to provide for future payments of the 1994 Bonds due on June 1, 2005 and later, they are considered defeased and have been removed from the general long-term debt account group and are not included in the County's financial statements.

Note 7. Long-Term Debt, continued

Rural Special Improvement District Bonds

Rural special improvement district bonds are payable from special assessments levied against the properties of the respective districts. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par value plus accrued interest, if the related special assessments are collected.

The County has a secondary responsibility on the special assessment bonds issued for the various rural special improvement districts (R.S.I.D.) to the extent of availability of cash in the R.S.I.D. Revolving Fund. State law provides for and the County uses an R.S.I.D. Revolving Fund to accumulate resources for such debt service payment. Law allows for a special property tax levy as long as the balance in this fund is less than 5% of the principal amount of outstanding R.S.I.D. bonds. No tax levy for this fund was assessed for fiscal year ended June 30, 2002. The R.S.I.D. Revolving Fund has no unfunded commitment to the R.S.I.D. bond fund as of June 30, 2002. The R.S.I.D. Revolving Fund would be committed to the R.S.I.D. Bond Fund as a result of lost revenues due to unpaid assessments from properties taken by tax title. The amount of the liability can fluctuate based on future tax deed losses, collections of penalties and interest on delinquent assessments, proceeds from unsold tax deed properties and other circumstances. The bonded debt of these rural special improvement districts is shown in the General Long-Term Debt Account Group as "Special assessment debt with governmental commitment." The R.S.I.D. Revolving Fund, which has a fund balance of $159,625 at June 30, 2002 is treated as a debt service fund.

The outstanding rural special improvement district bonded indebtedness of the County was as follows:

Rural Special Improvement District Number	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2002
632	8.38%	09/15/86	03/14/06	758,000	$ 91,599
633	8.38%	09/15/86	03/14/06	482,500	83,509
643	5.12%	06/01/96	07/01/06	108,500	45,000
649	5.36%	06/01/96	07/01/06	435,000	85,000
653	5.395%	05/28/97	07/01/07	185,000	55,000
658	7.45%	08/19/97	07/01/05	52,437	5,000
663	7.25%	06/30/98	07/01/08	43,116	17,000
664	7.45%	10/06/98	07/01/05	22,603	6,000
665	6.80%	08/03/99	08/03/09	32,940	21,000
668	5.83%	06/15/00	06/15/15	750,000	470,000
674	5.70%	08/31/00	08/31/08	58,192	36,000
679	5.70%	09/01/01	08/01/13	82,000	75,000
Various matured bonds	0%	Various	Matured	Various	7,225
Outstanding rural special improvement district bonds, June 30, 2002					997,333
Less called and matured bonds					(7,225)
Uncalled rural special improvement district bonds, June 30, 2002					**$ 990,108**

Note 7. Long-Term Debt, continued

Notes Payable

Notes payable are long-term obligations which are financed through the current operating budget of the respective funds.

At June 30, 2002, the outstanding notes payable of the County were as follows:

5.85% note payable of the General Fund, due in annual payments of $13,503 to November 2007.	$ 66,715
Variable interest notes payable of the METRA Fund, due in semi-annual principal installments of $29,940 to $39,291, to August 2009.	516,343
Interest free note payable of the METRA Fund, due in annual payments of $7,500 to August 2006	37,500
Total notes payable	**$ 620,558**

Changes in Long-Term Liabilities

	Year Ended June 30, 2002			
	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds	$ 7,425,000	$ 6,830,000	$ 6,745,000	$ 7,510,000
Rural Special Improvement Bonds	1,122,610	82,000	214,502	990,108
Total bonded indebtedness	8,547,610	6,912,000	6,959,502	8,500,108
Notes Payable	694,961	0	74,403	620,558
Compensated Absences	1,129,334	444,923	468,203	1,106,054
Total long-term liabilities	**$10,371,905**	**$ 7,356,923**	**$ 7,502,108**	**$ 10,226,720**

Note 7. Long-Term Debt, continued

Summary of Debt Maturities

Annual debt service principal and interest payments required on outstanding debt at June 30, 2002, are as follows:

Year Ending June 30,	Type of Debt: General Obligation Bonds	Rural Special Improvement Bonds	Notes Payable*
2003	$ 795,307	$ 115,749	$ 97,139
2004	789,557	128,025	97,845
2005	792,283	131,379	98,530
2006	787,858	171,500	99,340
2007	790,758	147,851	100,137
Later years	5,541,482	737,407	208,132
	$ 9,497,245	$ 1,431,911	$ 701,123

* Debt service requirements are projected, since the interest rate on these notes changes annually. Debt service requirements for fiscal year 2004 and later are based on current interest rate.

Note 8. Contributed Capital

The contributed capital account of the METRA Fund represents a contribution of $12,850,000 in general obligation debt, $4,951,007 in federal revenue sharing contributions, $341,774 in interest earnings on bond proceeds, a $14,000 contribution in equipment and $92,559 in track improvements from service groups, and a $41,425 contribution in equipment from the Property and Liability Insurance Fund. Accumulated depreciation on these contributions amounts to $7,144,569 at June 30, 2002.

Contributed capital changes in the proprietary funds during fiscal year 2002 were as follows:

Source Description	METRA Fund	Telephone Fund	Totals (Memorandum Only)
Contributed capital July 1, 2001	$11,605,745	$ 4,893	$ 11,610,638
Depreciation on contributed property and equipment	(459,549)	(1,633)	(461,182)
Contributed capital June 30, 2002	**$ 11,146,196**	**$ 3,260**	**$ 11,149,456**

YELLOWSTONE COUNTY, MONTANA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2002

Note 9. Unreserved Fund Balance

	UNRESERVED FUND BALANCE		
	Designated	Undesignated	Total
General Fund	**$ 1,435,166**	**$ 2,303,452**	**$ 3,738,618**
Special Revenue Funds:			
Road	$ 260,191	$ 1,293,990	$1,554,181
County Attorney	0	175,395	175,395
Bridge	424,646	360,997	785,643
Predatory Animal Control	300	367	667
Weed Control	37,718	79,141	116,859
Library	0	25,057	25,057
Senior Citizens	0	27,802	27,802
County Extension Agent	9,031	70,741	79,772
District Court	503,156	797,850	1,301,006
PILT	149,750	5,331	155,081
Parks	0	91,290	91,290
Air Quality Control	16,489	43,525	60,014
Museum	32,097	77,397	109,494
Crime Control	0	422	422
Health Services	0	0	0
Soil Conservation	0	5,731	5,731
Alcohol Rehabilitation	0	0	0
Drug Forfeiture	59,000	21,465	80,465
Property and Liability Insurance	1,563,893	495,789	2,059,682
Junk Vehicle	0	0	0
Youth Services	131,845	497,303	629,148
R.S.I.D. Maintenance	200,000	569,949	769,949
Traffic Safety	23,450	61,269	84,719
Emergency Levy	28,934	0	28,934
Public Safety	1,122,148	3,197,527	4,319,675
Total Special Revenue Funds	**$ 4,562,648**	**$ 7,898,338**	**$ 12,460,986**

The "designated" portion of unreserved fund balance represents that amount of money being used in the fiscal year 2003 budget to balance the shortage between anticipated revenues and expenditures.

Fund balance in the debt service funds is reserved for the associated debt requirements of the respective funds. Fund balance in the capital projects funds is reserved for capital replacement and improvements.

Note 10. Establishment of County Attorney Fund

In November 2000 Yellowstone County voters approved a dedicated public safety $660,000 mill levy for the purpose of providing additional funding for prosecutorial services. In order to provide adequate accounting for this dedicated property tax the county attorney's services were separated from the general fund into a special revenue fund. Funding for previous county attorney operational costs is provided by an operational transfer from the general fund.

Note 11. Segments of Enterprise Activities

There are two funds which are primarily financed by user charges. They are Refuse Disposal and METRA. The key financial data for the yearended June 30, 2002, for those services are as follows:

	Refuse Disposal	METRA	Total
Operating revenues	$ 517,740	$ 4,451,305	$ 4,969,045
Operating expenses	(314,995)	(4,886,527)	(5,201,522)
Depreciation expense	0	(783,614)	(783,614)
Operating income (loss)	202,745	(1,218,836)	(1,016,091)
Nonoperating revenues (expenses)	0	805,655	805,655
Net income (loss)	202,745	(413,181)	(210,436)
Acquisitions of property and equipment	0	68,244	68,244
Working capital	1,007,955	722,671	1,730,626
Current assets and restricted cash	1,007,955	799,423	1,807,378
Restricted cash and demand investments	0	571,430	571,430
Property and equipment (net of accumulated depreciation)	0	14,222,899	14,222,899
Total assets	1,007,955	15,593,752	16,601,707
Current liabilities	0	648,182	648,182
Noncurrent liabilities	0	846,587	846,587
Total equity (deficit)	1,007,955	14,098,983	15,106,938

Note 12. Risk Management

The County faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e. errors and omissions, d) environmental damage, e) workers' compensation, i.e. employee injuries, f) prisoner medical costs and g) medical insurance costs of employees. A variety of methods is used manage these risks.

Effective July 1, 1998, the County is insured against liability claims over $100,000 and under $3,000,000. The previous deductible with the liability insurer was $250,000. Under Montana law the most any single person may recover against the County is $750,000 and the maximum liability for an occurrence is $1,500,000. County buildings and their contents are covered by property and casualty insurance with a $25,000 deductible. The County also utilizes a separate liability policy with no deductible for METRA. Professional liability insurance covers claims in excess of $25,000. The County at June 30, 2002, had unreserved fund balance in its Property and Liability Insurance Fund totaling $2,059,682.

The County has elected to participate in the Montana Association of Counties Workers' Compensation Trust (the Trust). The Trust was organized to provide workers' compensation coverage to participating counties. The County pays annual premiums to the Trust for its workers' compensation coverage and for its portion of the debt service for the bonds sold by the Trust to provide aggregate excess coverage, provide resources for previously unfunded liabilities, and establish initial insurance reserves. The County remains contingently liable for its portion of these bonds. The Trust has obtained reinsurance through commercial companies for claims in excess of $1,000,000 per occurrence. The Trust's governing body is comprised of nine county commissioners elected at the annual county commissioners convention. The governing body has the authority to determine management and set operational policies.

Financial statements for the Trust are available from the Montana Association of Counties, located in Helena, Montana.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

Employee health insurance is discussed in note 13B.

Note 13. Employee Benefits

A. Compensated Absences

All full-time County employees accumulate vacation and sick leave hours for later use or for payment upon termination, death or retirement. Employees earn annual vacation leave at the rate of 15 days per year for the first 10 years of employment up to a maximum of 24 days per year after 20 years. There is no requirement that annual vacation leave be taken, but the maximum permissible accumulation is twice the current annualized rate as of December 31 of each year. At termination employees are paid for any accumulated annual vacation leave.

Employees earn sick leave at the rate of 12 days per year. There is no limit on the accumulation of sick leave. At termination employees are paid for 25% of accumulated sick leave. The unvested 75% of accumulated sick pay benefits, which totaled $1,756,865 at June 30, 2002, has not been recorded as a liability.

The liability for vested accumulated annual vacation and sick leave at June 30, 2002, is $1,630,695 and is reported in the general fund, special revenue funds, enterprise funds and the general long-term debt account group. The long-term liability for accrued employee leave is an obligation of the general fund and special revenue funds.

B. Health Insurance

The County has a self-funded health care benefit plan for its employees. The County has contracted with a private insurance carrier to provide the aggregate stop loss coverage, and claims processing. The County contributes a monthly amount for each full-time employee for health and dental insurance benefits. Employees may elect to include coverage of their dependents, at the employees' expense. Revenues to the plan from the various funds and employees are recorded as health insurance premiums in the Health Insurance Fund, an internal service fund. The fund records health care costs as expenses when claims are incurred. The fund establishes claims liabilities, including incurred but not reported (IBNR) claims based on the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends and any other factors that modify past experience. Claims liabilities include only specific, incremental claim adjustment expenses. The liability recorded for the IBNR is $300,000 and $150,089 is recorded for health and drug claims incurred in fiscal year 2002 but paid in July 2002.

Following is a summary of the changes in the balance of claim liabilities during fiscal 2001 and 2002:

	Beginning of fiscal-year liability	Estimated Incurred claims	Claims paid, net of expected reimbursements	End of fiscal-year liability
2000-2001	$ 398,842	$ 2,418,651	$ 2,410,550	$ 406,943
2001-2002	$ 406,943	$ 3,063,300	$ 3,020,154	$ 450,089

Yellowstone County's maximum exposure for the health plan period ended June 30, 2002 was limited by aggregate stop loss insurance coverage to approximately $3.55 million. Claims paid during fiscal year 2002 that were subject to the aggregate stop loss coverage were $3.03 million resulting in a $513,000 maximum exposure for run-out of claims. Since the County has recorded $300,000 for IBNR, the maximum contingent liability is $213,000. Net income for the health insurance fund increased as a result of a one-time transfer of $1 million. This money was available as a result of the State of Montana assuming the operations of the poor fund effective July 1, 2001. Most of the reserve available in the poor fund was utilized to fund the $1 million transfer to the health insurance fund.

Results of operations for fiscal year ended:	June 30, 2001	June 30, 2002
Health insurance premiums	$ 2,587,075	$ 2,772,276
Health claims	(2,418,651)	(3,063,300)
Administrative expenses	(231,476)	(266,502)
Interest revenue	57,239	71,848
Interfund transfer In	30,000	1,000,000
Net income (loss)	24,187	514,322
Retained earnings, beginning of fiscal year	421,022	445,209
Retained earnings, end of fiscal year	**$ 445,209**	**$ 959,531**

Note 13. Employee Benefits, continued

B. Health Insurance, continued

In addition to providing health benefits for existing employees, the County also allows retired and COBRA (1985 Consolidated Omnibus Budget Reconciliation Act) employees, and their families, to participate in the plan at the former employees' expense. As of June 30, 2002, there are 124 former employees covered under the health plan. The County also allows participation in the plan for employees and dependents of the City/County Health Department and the Big Sky Economic Development Authority. Employees of the City/County Health Department were grandfathered at County employee rates, while the Big Sky Economic Development Authority pays County rates plus an administrative cost. The economic impact of the extension of benefits to these other participating entities and former employees cannot be separated from the County's cost to cover active employees. Due to the transfer of $1 million in fiscal year 2002, which was available due to the closure of the County's poor fund, there were no benefit or premium changes during fiscal year 2002.

C. Life Insurance

All County employees covered by health insurance are also covered by life insurance. The County also covers permanent part-time employees that do not elect health insurance. The County pays the cost of life insurance for coverage at 75% of the prior year's salary rounded to the highest $1000. All full-time employees are covered at a minimum of $10,000 and a maximum of $40,000. Matching supplemental life insurance is optionally available up to a total coverage of $50,000 per employee. The cost is split evenly between the County and the employee for supplemental coverage. The County has contracted with a private insurance carrier to provide the life insurance coverage.

D.Deferred Compensation Plans

The County offers its employees various deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all County employees, permit them to defer a portion of their salary until future years. Participation in the plans is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The County has three deferred compensation plans and each plan allows several investment options. The choice of plan and investment options is made by the employee.

Plan assets are maintained in an exclusive trust for the benefit of participants and their beneficiaries. Accordingly, plan assets are not reported in the County's general purpose financial statements.

Note 14. Pension and Retirement Fund Commitments

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Board (PERB).

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. A guaranteed annual benefit adjustment (GABA) of 1.5% is provided each January for benefit recipients if they have been receiving a benefit for at least 36 months. Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The State legislature has the authority to establish and amend contribution rates to the plan. Plan members are required to contribute 6.9% of compensation. Local government employers are required to contribute 6.8% of members' compensation and the State of Montana was required to contribute 0.1% of members' compensation on behalf of local government entities. One hundred percent of the required County and employee contributions were made for the current and each of the two preceding years. Required contributions were made as follows:

Fiscal Year	County Contribution	Employee Contribution	State of Montana Contribution
1999-2000	$764,891	$776,141	$11,250
2000-2001	$814,650	$826,631	$11,981
2001-2002	$885,283	$898,301	$13,018

Note 14. Pension and Retirement Fund Commitments, continued

The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year end. It is available from the PERB at 1712 Ninth Avenue, PO Box 200131, Helena MT 59620-0131, telephone 406-444-3154.

The Sheriffs' Retirement System (SRS) which was established in 1974 and is governed by Title 19, Chapters 2 & 7 of the Montana Code Annotated provides retirement service to all Department of Justice criminal investigators hired after July 1, 1993, and to all Montana sheriffs. SRS is a mandatory multiple-employer, cost sharing benefit plan administered by the PERB.

The SRS offers retirement, disability and death benefits to plan members and their beneficiaries. Minimum years of service are 20 regardless of age for a normal retirement benefit. Actuarial reduced benefits may be taken at age 50 with at least five years of service. The service retirement benefit is calculated as follows: 2.5% times final average salary times the number of years of service. A guaranteed annual benefit adjustment (GABA) of 1.5% is provided each January for benefit recipients if they have been receiving a benefit for at least 36 months. After 5 years of service, an employee has a vested right to service retirement benefits. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The State legislature has the authority to establish and amend rates to the plan. Plan members are required to contribute 9.245% of compensation. Employers are required to contribute 9.535% of members' compensation. One hundred percent of the required County and employee contributions were made for the current and each of the two preceding fiscal years. Required contributions were made as follows:

Fiscal Year	County Contribution	Employee Contribution
1999-2000	$203,539	$197,349
2000-2001	$208,836	$202,484
2001-2002	$209,558	$203,185

The SRS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year end. It is available from the PERB at 1712 Ninth Avenue, PO Box 200131, Helena MT 59620-0131, telephone 406-444-3154.

Note 15. Contingent Liabilities and Commitments

Pending Litigation
There are a number of lawsuits pending. However, management estimates that the potential claims against the County from such litigation would not threaten the County's political existence or exceed the County's ability to pay. The accrued liability established in the Property and Liability Insurance Fund of $450,000 is considered to be adequate for potential settlements and litigation costs. The County considers the other known legal actions to be of nominal financial impact.

Human Services Building Lease
The County renewed the lease for 21,000 square feet of space for the human services department for $5,375 per month starting July 1998 and ending June 2003. The five year renewal is the first of three optional five year renewals to June 30, 2013. Costs for the lease are reimbursed through a sublease with the State of Montana.

Grants
The County has Federal and state grants for specific purposes that are subject to annual audits and other periodic reviews by grantor agencies. Such reviews could result in requests for reimbursement by grantor agencies for costs, which may be disallowed as appropriate expenses under the grant terms. The County believes disallowances, if any, will not be material.

Note 16. Conduit Debt Obligations

From time to time, the County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying general purpose financial statements.

As of June 30, 2002, there were eleven series of industrial revenue bonds issued after July 1, 1978. The aggregate principal amount outstanding for the ten series issued prior to July 1, 1997, could not be determined; however, their original issue amounts totaled $19.5 million. The aggregate principal amount outstanding for the one series issued after July 1, 1997 was $4.74 million at June 30, 2002 There were no industrial revenue bonds issued for the year ended June 30, 2002.

Note 17. Health District

On January 1, 1998 the County, City of Billings, and City of Laurel entered into an interlocal agreement establishing the County's Health Services Fund as an independent Health District. The Health District separated from County operations and legal responsibilities on that date. As a result, all assets and liabilities of the County's Health Services Fund, including accrued employee benefits, equipment leases, equipment, and notes payable were transferred to the Health District. The County's involvement with the Health District subsequent to the separation is limited to investing the Health District's excess cash, collecting property taxes levied on its behalf, and allowing participation in the County's health plan by its employees and dependents. Premiums are charged to the Heath District for all its participating employees and dependents.

Membership of the Health District's board of directors consists of not less than 12 members, nor more than 15 members. Two (2) members shall be appointed by the Board of County Commissioners of Yellowstone County. Two (2) members shall be appointed by the Mayor of Billings with consent of the city council of Billings. One (1) member shall be appointed by the mayor of Laurel with consent of the city council of the City of Laurel. The Board of Health will fill the remaining 7-10 board members.

Note 18. Related Organization

The County is responsible for appointing the members of the governing board of the Big Sky Economic Development Authority (the Organization) however, the County is not able to impose its will on the Organization. Nor is there a potential for the Organization to provide specific financial benefits to, or impose specific financial burdens on, the County. As a result, the Big Sky Economic Development Authority is considered a related organization, and not a component unit of the County.

Note 19. Effects of new legislation

Effective July 1, 2001, under House Bill 124 from the 2001 legislative session, the State of Montana (State) will receive revenue sources such as motor vehicle tax, gambling tax, and some other state shared revenues that were previously distributed to local governments. The State replaced these revenues sources with a single revenue distribution to local governments called the entitlement. Entitlement revenue is distributed to funds that lost revenues to the State. Associated legislation from 2001 legislative session had the State assume the costs of welfare effective July 1, 2001. Welfare costs previously paid by the County were offset against the County's entitlement payment. The impact of the legislation is as follows:

Revenues from fiscal year 2001 that were assumed by the State in fiscal year 2002	$ 5,048,447
Less welfare costs assumed by the State in fiscal year 2002	(2,299,022)
Revenue growth allowed for fiscal year 2002	76,972
Entitlement distribution for fiscal year 2002	**$2,826,397**

Note 20. Subsequent Events

On Oct. 1, 2002 the County approved the issuance of a $1.4 million variable interest rate industrial revenue bond (see footnote 16).

Effective July 1, 2002 property insurance covering terrorist acts is limited to $1 million.

Effective October 4, 2002 the self insured retention (deductible) on liability insurance claims increased from $100,000 to $200,000.